

Tulihamu Budongo SACCO Ltd., Uganda

Tulihamu Budongo SACCO is a savings and credit co-operative that was formed through the mobilization of women's community groups that had been doubling as Rotating Savings and Credit Associations (ROSCAs) in and around Budongo sub-county in Masindi district in Western Uganda. The institution began operations in June 2005 and was formally registered by the commissioner of co-operatives in December 2005. Tulihamu presently operates out of a single branch and is located in Kabango trading centre, 26 km from Masindi town. It offers individual loans, mainly for business or related purposes, alongside voluntary savings products. As at 30th September 2007 Tulihamu had a loan portfolio of 58.4K USD, a membership of 613 individuals and was serving 263 active loan clients.

GIRAFE Mini Rating

Mini-Rating

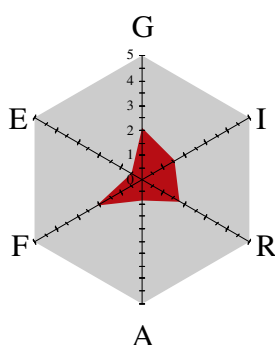
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Date of the rating

October 2007

Valid until September 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- The profitability trend at Tulihamu is negative due to the high operating expense ratio (69% in 2006) and a growing yield gap on account of the poor portfolio quality (PAR31-120 at 20.2%). The outlook in the short and medium term is expected to remain negative underpinned by increases in funding and loan loss provision expenses.
- Management is committed to the organization but inadequate enforcement of procedures exposes Tulihamu to fraud risk.
- Tulihamu's growth prospects are good due to its proximity to clients and high demand, nevertheless, prudential growth will depend on addressing weaknesses in portfolio management.
- By choosing to participate in the Prosperity for All program of the Government of Uganda, Tulihamu will be exposed to increased credit and reputation risk.

Areas for improvement

- Tulihamu needs to reassess its involvement in the Prosperity for All program.
- Increase capacity of LOs especially in loan appraisal.
- Implement liquidity management procedures.
- Reduce key person risk on the Technical Assistant by training other members of Supervisory Committee to improve the internal audit function.
- An MIS strategy is needed to improve efficiency through computerization.

Performance indicators

USD , unless otherwise stated	Dec. 2005	Dec. 2006	Sep. 2007
Assets	4,707	72,814	116,323
Growth	N/A	1,554.6%	50.3%
Loan portfolio	2,217	35,103	58,433
Growth	N/A	1,593.5%	56.6%
Outstanding deposits	3,911	36,691	53,828
Growth	N/A	903.4%	38.0%
Active borrowers	23	216	263
Active savers	56	397	613
Staff	2	4	5
ROE	(68.5%)	3.4%	(31.3%)
ROA	(9.9%)	1.1%	(9.8%)
Liabilities / Equity	5.91x	2.05x	2.30x
Portfolio Yield	18.9%	70.4%	53.6%
Operating expense ratio	79.8%	69.0%	71.0%
PAR 31 - 120	0.0%	22.5%	20.2%
PAR > 120	0.0%	6.0%	6.8%
Write-off ratio	0.0%	0.0%	0.0%

Institutional presentation

Legal form, supervision and audit

Tulihamu Budongo SACCO Ltd was formed as a savings and credit co-operative (SACCO) in May 2005. It officially began operations on 1st June 2005 and was formerly registered under the provisions of the Co-operatives Societies statute (1991) in December 2005. As a Savings and Credit Co-operative (SACCO), Tulihamu is governed by the Co-operatives Regulations Act (1992) and falls under Tier IV of the Financial Institutions categorization as laid out by the Micro Deposit-Taking Institutions Act (2003). As such the institution is allowed to mobilize savings and provide credit services to its clients but is not subject to supervision from the Central Bank. Instead its activities are to be monitored and supervised by the District Co-operatives Officer under the Ministry of Trade, Tourism and Industry (MTTI). KIRT Associates (CPA) is Tulihamu's current and only auditor since its inception and has certified their accounts without qualifications over the past two years.

Ownership

Tulihamu is a user-owned and governed institution whose members convene annually at an Annual General meeting. Its formation was spear-headed by four individuals, comprising community leaders and a microfinance practitioner, all hailing from the Kabango Trading Center (TC) area. Currently all four founding members sit on the 7-member Board of Directors (BoD), which oversees the governance, strategic direction and the day to day operations of Tulihamu. This BoD comprises various community members of Kabango TC including teachers, religious elders and business people and is further sub-divided into committees: a loans committee headed by the BoD chairperson, a disciplinary & mobilization committee and an audit / supervisory committee.

From inception, Tulihamu's BoD and management have received, and continue to receive, significant input and advice from the technical advisor who is part of the founding team and has over 6 years experience in the field of microfinance with the public, private and NGO sectors. Currently the technical advisor also heads the supervisory committee and is additionally charged with sourcing and establishing linkages with various microfinance players including government and other development partners. As of September 2007 Tulihamu had a total membership of 613, comprising 608 individuals and 5 institutions, with a combined share capital of 27.5 M UGX (15.7K USD).

Donations

Prior to 2006, Tulihamu's only donation was a 700,000 UGX (400 USD) grant from Uganda Co-operative Alliance. Since 2006, grants to a tune of 47.6 M UGX (27.2 K USD) have been received from various partners including the EU-GoU SUFFICE program and MSC to support capacity building alongside the provision of technical assistance.

Funding composition

As of September 2007 equity and savings that take up 30% and 47% respectively of the institution's present funding whereas concessional loans from MSC totaling UGX 47.7M (USD 27.3K) make up the remaining 23% of its funding structure. The institution is also currently negotiating a loan facility and related support under the government Prosperity for All program.

The Prosperity for All program

Prosperity for All (PFA) is a new program designed to provide affordable loans to Uganda's rural poor by channeling government subsidized loans through Post Bank Uganda to local SACCOs. The program will work with identified SACCOs at the sub-county level and aims to reach at least one SACCO in each of the estimated 1,000 sub-counties in Uganda. Loans to the SACCOs from Post Bank will be at 13% per annum for commercial activities and 9% per annum for agricultural activities. One of the contract requirements is that the interest rate for on-lending to members is capped at the interest rate of the loan to the SACCO +4%, i.e. 17% and 13% respectively. To assist the SACCOs in meeting operating costs on this 4% margin the government will provide additional matching grants. If the program is to be rolled out nation wide under the above terms it is expected to have a significant negative impact on the SACCO sector as it will significantly reduce their profitability. Furthermore, portfolio quality is expected to deteriorate as people know the money is coming from government and is likely to be seen as grant money.

Tulihamu was chosen as one of the first SACCOs to participate in the above program and the institution is currently finalizing a loan agreement to the tune of 25 M UGX (14.3 K USD).

Management team

The management team at Tulihamu is composed of the manager. Future allowance has been made for an accountant and loans supervisor to complete the team. They are planned to be recruited in 2008 and 2009 respectively. The manager, Ms. Akugizibwe Jacinta, has occupied this position since the institution's inception in 2005 and holds a Diploma in Education. She has also undertaken microfinance and

SACCO management-specific trainings through courses and field visits organized by the BoD.

Organization

Tulihamu operates all its activities from a single branch which houses the operational team and support staff of the institution. The manager oversees all daily operations assisted by 2 loan officers (LOs), a cashier and a ledger keeper. All transactions involving savings, loan disbursements as well as repayments are done exclusively by the cashier at the branch. Occasionally, the LO accepts repayments in the field and issues a receipt. Information regarding all transactions (both cash and non-cash) is recorded by the ledger keeper through a manual system. The institution does have 2 stand alone desktop computers but these are under utilized due to irregular power supply.

For loan approval, all loans up to 3 M UGX (1,714 USD) must be approved by the loans committee, although one member may suffice for approval of loans between 0.1-0.5 M UGX (57-286 USD). However, loans above UGX 3M require scrutiny and approval by the BoD assisted by the technical advisor from the supervisory committee.

Market penetration

Tulihamu's only branch is located at Kabango trading centre within Kinyara Sugar estate about 26 km from Masindi town towards Lake Albert in Western Uganda. The institution's operations currently cover Budongo sub-county area with further reach into a few outlying villages. The institution targets the poorer population in these areas, focusing mainly on micro entrepreneurs and small scale farmers.

Products and services

Tulihamu offers both savings and loan products to its clients. All loans are currently offered on individual basis and are differentiated based on their purpose i.e. salary loan, school fees loan, working capital loan, fixed asset purchase loan and Upesi or emergency loan. The institution also offers a special type of loan to its staff and board members. The working capital, fixed asset purchase and school fees loans all carry an annualized interest rate of 42% (flat), while the salary and staff loans are at 24% (flat). The Upesi or emergency loan is charged 5% per month (flat) and a maximum loan term of 4 months. For all loans, besides the staff loans, clients are required to pay an application fee of UGS 10,000 or 1% of the loan amount (depending on which is higher). This leads to an average effective interest rate of 74%, 44% and 90% respectively for the three groups of loans. Minimum and maximum loan terms for the loan products range from 1-3 months to between 8-12 months respectively, while the total loan amount for any given client cannot exceed 10 times the total value of shares held by the

individual. All loan applicants must be guaranteed by at least two other members besides providing collateral in form of land or chattel items whose total value must be at least 150% the loan amount.

Tulihamu also offers two savings products: regular demand deposits and time deposits. While the demand deposit carries neither interest nor monthly charges, it requires that the holder be a fully paid up member. The time deposits range between 4 and 12 month terms and carry an interest rate between 0.8% and 1.5% per annum depending on the length of the period

Networks

Tulihamu is a member of Uganda Co-operative Alliance and recently applied to join the Association of Microfinance Institutions of Uganda (AMFIU).

■ Governance

Governance and Decision Making is rated "c"

Decision-making

- + Tulihamu has in place a clear mission and vision, and decision-making is characterized by harmony and cooperation between the BoD, Management and staff.
- The BoD of Tulihamu is active in driving the organization forward and their meetings demonstrate that BoD members are aware of their various roles.
- In spite of this, in recent months, meetings have not been held on a regular basis.
- The members of the BoD generally demonstrate knowledge of what is required of them in their designated tasks.
- The Technical Advisor of Tulihamu, who also sits on the Supervisory Committee, is the only member with technical experience in Microfinance, and is absent from Tulihamu for significant periods at a time.

Planning

- + The main strategy of Tulihamu is to consolidate their position as the main SACCO providing financial services in their sub-county and surrounding areas.
- Tulihamu has accepted to partake in the PFA program as a main source for their expansion, but where the consequences for their institution have not been thought through properly (see Activities section).
- + Tulihamu has developed a 3-year business plan for 2007 to 2009, which addresses the key operational requirements of the institution in sufficient detail including financial projections.
- The business plan requires more focus on highlighting the key risks (mainly credit risk) that are faced by the

institution and the corresponding actions to deal with those risks

- + Tulihamu uses a simple but efficient budgeting process and budgets are used as performance indicators to monitor monthly performance of the institution.

Management team

- The manager of Tulihamu is a teacher by profession and has no prior microfinance experience. Nevertheless, she has managed to learn fairly quickly on the job and is committed and loyal to the institution.
- In addition, the manager receives significant support from the Loan Committee and Supervision Committee to enable her to carry out her duties effectively but is not supported internally by other staff as the positions of Accountant and Loan Supervisor are not yet filled.
- The manager does need to further enforce her authority on her staff as several cases of repeated lack of adherence to the institution's policies by staff, including several fraud cases, were observed.
- In the absence of the manager, the hierarchy and delegation of authority is not very clear at Tulihamu.
- However, during the maternity leave of the manager, the cashier has been acting manager and has stepped into this role quite ably, which would suggest there is limited key-person risk on the manager.

Human resource management

- + Tulihamu has a well developed Human Resource (HR) function that has recently been formalized in a HR manual. The HR function is taken very seriously as demonstrated by the careful recruitment process.
- + Staff motivation at the institution is generally high and recognized as a critical success factor of Tulihamu. Salary increases have been carried out regularly and staff members regularly undergo technical training.
- + Staff turnover has generally been low and all positions of the organizational chart have been filled except for the accountant and loan supervisor.

Areas for improvement

- Reassess involvement in the government PFA program.
- Update business plan to include a detailed action plan to address the poor portfolio quality.
- Manager needs to enforce her authority to ensure that staff members comply with operating procedures.

Information

Information is rated “d”

- Despite the simplicity and ease of use of the present manual MIS at Tulihamu, weaknesses and limitations still abound within the system's processes and procedures. The data compilation is both time-consuming and prone to error during input or transfer between daily and monthly reports leading to inefficiency.
- The tedious process of manually generating various performance indicators guarantees neither the reliability nor timeliness of monthly reporting.
- Significant unreconciled differences between loan data in accounting and the ledger cards further undermine data reliability.
- Storage of client files and loans and savings ledgers is in open file cabinets where the information is easily accessible and at risk of destruction, loss or manipulation.
- The back-up and storage of copies of the monthly reports off-site is a commendable step to securing secondary data sources
- Portfolio data is basic with appropriate indicators and related analysis, however there is still significant room for improvement in timely reporting and analysis of the specific indicators.
- Accounting information is more consistent and timely than loan portfolio information however it's reporting could also be improved to enable better monitoring and decision-making by management and the BoD.
- Presently, the system at Tulihamu is ill-equipped to execute more detailed performance reporting or handle the prospects of future growth in client numbers. A clear MIS strategy outlining training needs and computerization plan is highly crucial.
- + The board acknowledges the present MIS short-comings and detailed plans are already under-way to address some of the key concerns including the on-going sourcing for MIS software and recent hiring of an LO with a Degree in computer sciences.

Areas for improvement

- Improve data storage and security at the head office to ensure minimal risk of loss, destruction or manipulation of existing client information.
- Ensure data reconciliation between accounting and loans & savings data as well as bank reconciliation
- Develop a comprehensive MIS plan that accesses and addresses the key needs of Tulihamu related to data capture, processing, storage and personnel training.

■ Risk Management

Risk Management is rated “d”

Procedures and internal controls

- Procedures and internal controls at Tulihamu provide an adequate framework to manage risks and have been formalized through the well developed Accounting and Operations manual.
- Nevertheless, compliance to procedures is inadequate and could expose the institution to fraud risk. A case in point is missing information in loan appraisal forms such as cash flow analysis and missing photographs on ledger forms.
- The organizational structure of Tulihamu is well designed to ensure a reasonable level of internal controls through separation of duties. However, in daily reality not all staff is always present undermining separation of tasks (e.g. updating of loan ledger cards by the cashier).
- Cash security at Tulihamu is reasonable. The safe is only accessible by two people, neither of whom has exclusive access. Cash limits are set and observed.
- Cash in the safe and in transit is not insured against theft.

Internal audit

- The scope of audit includes cash counts (carried out at least once a month) and compliance checks on operational procedures (usually under lead of Technical Advisor).
- Tulihamu does not have an internal audit manual, however, plans are in place to develop one by 2008.
- The internal audit function of Tulihamu is reasonably strong and benefits immensely from the microfinance experience and skills of the Technical Advisor.
- The internal audit reports consist of the supervision book, which relates to the surprise visits of the Supervision Committee, and comprehensive quarterly audit reports.
- The quarterly reports are useful in pointing out weaknesses at Tulihamu, however, the reports have not been done regularly (only one in 2007), and hence follow up on identified weaknesses is insufficient.
- The Technical Advisor does not reside in the locality of Tulihamu and, therefore, the function does suffer from key-person risk. In his absence, the other members of the Supervisory Committee focus their efforts only on carrying out the surprise cash counts.

Areas for improvement

- Reduce key person risk on the Technical Advisor for the internal audit function and train the other members of the supervisory committee to be able to conduct audits with sufficient depth in absence of the Technical Advisor.
- Implement insurance policy to improve cash security.

■ Activities

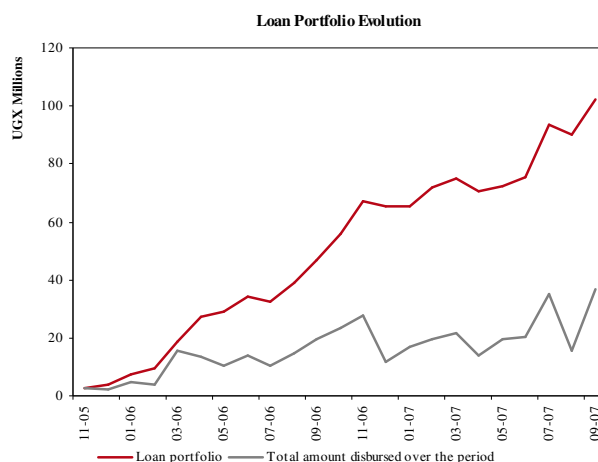
Activities: products and services is rated “e”

Market position

Within the geographical area of Budongo sub-county, Tulihamu targets the economically active rural poor that operate micro-enterprises but are unable to access financial services from the more formal financial institutions. The majority of the institution’s clients are thus small scale traders, micro-entrepreneurs and subsistence farmers. Despite the presence of financial institutions such Stanbic, FINCA and Post Bank within the district, Tulihamu continues to enjoy a competitive edge primarily due to its proximity to clients, which enables them to save both time and money in accessing its services. Furthermore Tulihamu’s requirements for both credit and savings facilities are fewer and relatively simpler than those of the formal institutions while its flexible loan collateral requirements appear more attractive to potential clients.

Since starting operations in mid-2005 Tulihamu has witnessed growth in client numbers for both its savings and loan portfolio and there is still high unmet demand within its lower end market niche. Presently, the institution perceives its key competitors as SACCOs operating within the surrounding areas of Bunjeje and Bulima and to a lesser extent FINCA. By specializing in individual loans and concentrating on efficient service delivery (4-5 working days) Tulihamu hopes to maintain a stranglehold, at least in the short run, within and around the Budongo area. Nevertheless, with plans to venture into new geographical areas and experiment with group-lending and agriculture loans, the institution is now faced with a new set of competition with related challenges including multiple borrowing and lack of the local enforcement mechanisms it presently enjoys in Kabango area.

Loan portfolio evolution



Tulihamu's portfolio has continued to post swift and steady expansion since inception resulting from the huge demand. However prudence in the management of growth is limited as growth appears unrestrained with a fast rising average loan size and no clear strategy to increase specific loan types at a given time.

Loan portfolio management

- + Tulihamu currently employs the individual lending methodology backed by basic analysis of the client's business cash flow and repayment capacity. Credit decisions rely mainly on the available collateral alongside character aspects. This methodology has been largely effective for the smaller loan sizes ranging between 0.1 M – 1 M UGX (57-571 USD) to individuals within Kabango's close-knit community.
- Larger loans and those disbursed in further-off places have however proved complex mainly due to the problem of asymmetric information. These loans have proved problematic as neither the appraisal techniques nor the present skills' sets of the LOs or loan committee members can sufficiently analyze them, often leading to ill-informed credit decisions.
- Delinquency management is poor for the existing portfolio, although recently steps were taken to improve it. Previously, the LO was single-handedly tasked with follow-up and recovery of late loans and there was minimal direct monitoring and supervision by the Loan Committee. Since August however, each Loan Committee member oversees recovery activities in his / her designated area.
- The charging of penalty fees, contrary to the rules, is often subjective and left to management and / or LOs.
- The pending roll-out by Tulihamu of the PFA program will provide a significant additional challenge particularly in light of the poor performances of similar past government credit programs. The perceptions of clients, regarding these funds as grants or voter rewards, and related repayment attitudes do not bode well for Tulihamu and are likely to spread into the existing portfolio as well.
- Tulihamu has considered developing a special lending product to accommodate PFA loans. However, this does not really dampen the risk of default on account of the perception by the public that the funds main objective is perceived to be political.

Credit risk

- Credit risk of Tulihamu is high with PAR > 30 at 27.0% as of September 2007, slightly down from 28.6% in December 2006. These figures fall short of both internationally accepted standards as well as the

institution's own defined target of PAR>30 to be less than 15%.

- PAR31-120¹ stood at 20.2% as of September 2007 (2006: 22.5%) indicating that delinquency management is lacks in the short term but improves in the longer term.
- The current write-off policy is inexplicit and no loans have been written-off to date despite a recommendation within the institution's loan policy.
- While loan re-scheduling is strongly discouraged, even for exceptions where it is done, no clear procedures, penalties or monitoring mechanisms are in place.
- + BOD/Staff loans are well contained, taking up less than 6% of the total portfolio as at September 2007, with adequate procedures for disbursement and recovery (PAR>30 as at September 2007 was 0%).
- Concentration risk at Tulihamu is not monitored but is present as the local economy is mainly dependent on the Kinyara sugar estate.
- Credit risk coverage is inadequate (19.4% as of September 2007) and remains poor as a result of inconsistent provisioning notwithstanding the existence of a clear provisioning policy.
- The effectiveness of both guarantors and collateral is uncertain, particularly in the case of the larger loans, as difficulties have been encountered in trying to dispose off collateral to recover bad loans.

Savings

- Tulihamu has been able to significantly increase its deposits over the past two years with a 36% increase in the first nine month in 2007.
- + To stabilize its deposit base Tulihamu has been focusing on term deposits which currently make up 27% of total deposits.
- Tulihamu continues to face a concentration risk in its deposit base with a small fraction of its active savers holding a sizeable portion of the total savings.

Areas for improvement

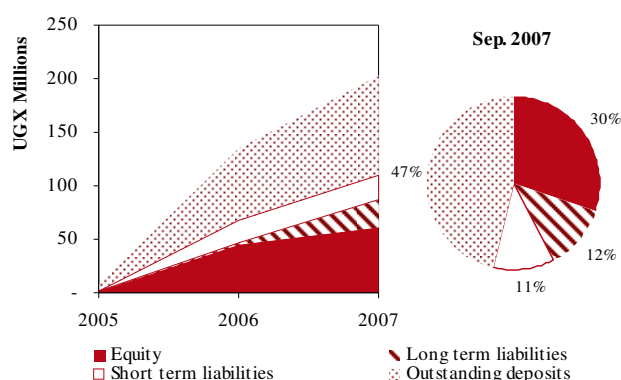
- Train LOs and loan committee members to improve their appraisal techniques as well as portfolio and delinquency management skills.
- Develop and implement adequate loan loss provision and write-off procedures.
- Reassess the implementation of the PFA program in view of expected clients' perceptions about government-aided credit programs.

¹Tulihamu does not separates ageing over 120 days. Therefore only the categories PAR 30-120 and PAR>120 are available for analysis.

■ Funding and liquidity

Funding and liquidity is rated “c”

Funding structure



Capital Structure and Leverage

Tulihamu maintains a capital structure typical of SACCOs with savings being the principle source of funding. Leverage has increased gradually during the current financial year from 2.0x (Dec. 2006) to 2.3x (Sept. 2007) mainly as a result attracting debt, which has diversified its capital structure.

Asset & Liability Management

- Maturity risk is expected to be low at Tulihamu but is not monitored. A significant portion of demand deposits are kept in cash and other liabilities have a longer term nature in either term deposits or debt.
- Interest rate risk is low. The MSC loans give MSC the discretion to revise interest rates on a bi-annual basis based on their assessment of the financial sector. On the basis of precedence, however, this has rarely happened.
- + Foreign currency risk is not present as all assets & liabilities are denominated in local currency.

Funding strategy

- In terms of debt, Tulihamu has relied mainly on concessional loans from GoU through MSC where it has accessed a loan of 45 M UGX (25.7 K USD) in 2007.
- A further increase in debt is likely to come from PFA where Tulihamu is negotiating for 25 M UGX loan.
- To date Tulihamu is still dependent on GoU sources of funding and is only in its initial stages of diversifying its funding sources and establishing links with investors.

Liquidity management

- + Tulihamu has a formalized system to manage liquidity based on monthly projections of expected cash inflow and outflows as contained in the operations manual.

- In practice, however, Tulihamu has not been applying this system, and liquidity planning is done on an ad-hoc basis.
- Liquidity risk is however low as liquidity to total assets has been close to 30% (28.2% in Dec. 2006; 30.1% in Sept. 2007). However, this also indicates that there has been no focus to date on optimizing liquid assets.

Areas for improvement

- Implement liquidity management on a regular basis.
- Develop mechanisms to monitor maturity risks as term deposits develop.

■ Efficiency and Profitability

Efficiency and Profitability is rated “e”

Profitability analysis

After registering positive ROA in 2006 at 1.1% during its second financial year of operations, Tulihamu’s performance is set to slip back into non-profitability with ROA up to September 2007 at (9.8%).

Effective interest rate levels have remained high as the institution takes advantage of a relatively low competitive environment to maintain loan terms. Nevertheless 2007 figures show a significant yield gap between theoretical and actual yield as a result of Tulihamu’s poor portfolio quality coming fully into play in 2007.

The operating expense ratio is still high at around 70% and remains well above a number of Tulihamu’s peers. Attempts by Tulihamu to tackle the deteriorating portfolio quality has seen an increase in both monitoring and recovery costs and all this alongside falling staff and LO productivity levels. Despite doubling of the average loan size over the two year period, costs remained high as the cost per borrower also doubled with the increased geographical coverage out of only one branch. Tulihamu also embarked on comprehensive staff and BoD training which, alongside the recently implemented increase in the staff remuneration package, has led to substantial increases in administrative costs at the institution.

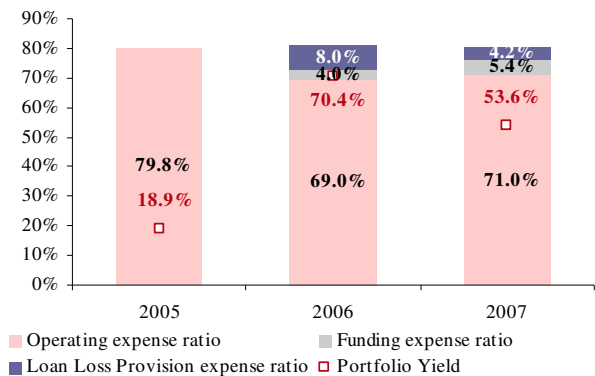
Funding expense ratio has increased from zero in December 2005 to 5.4% in September 2007. This reflects the steady growth in fixed deposits alongside increased commercial borrowings at Tulihamu. The loan loss provision expense ratio remained considerably high in both 2006 and 2007 at 8.0% and 4.2% respectively and this despite inconsistent provisioning at the institution. Asset deployment into the loan portfolio remained low at 47.6% indicating significant room for improvement for Tulihamu in optimization of its assets.

The profitability outlook for Tulihamu in the short term is negative, with the increasing yield gap and operating expense ratio expected to be the main drivers for the losses in 2007. The decision to join Prosperity for All (PFA) program will further impact negatively on the institution’s income levels, given the proposed interest rate ceilings on related lending as well as the anticipated default rates likely to result from clients’ perceptions of the government program as earlier noted.

The operating expense ratio is expected to maintain the present trend as the efficiencies related to increasing client numbers, under the pending PFA program, are off-set by the proposed expansion of services further away from Kabango TC that would increase both the cost per borrower and operating costs in general. The funding expense ratio is also expected to rise further as debt will increase and consistent application of the provisioning methodology will see a significant increase in the loan loss provision expenses.

Improving the portfolio quality and tighter administrative cost control will thus be the critical factors in determining how soon Tulihamu can hope to achieve and maintain its goal to become financially self sustainable and profitable.

Profitability structure



The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

■ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec. 2005	Dec. 2006	Sep. 2007
Loan portfolio evolution			
Loan portfolio	2,217	35,103	58,433
Loan portfolio (UGX)	3,855,500	65,291,100	102,257,250
Evolution	N/A	1,593.5%	56.6%
Average outstanding loan balance	1,109	18,025	47,871
Active borrowers	23	216	263
Evolution	?	839.1%	21.8%
Average outstanding loan per client	96	163	222
% of GDP per capita	31.8%	52.4%	60.8%
Average amount disbursed per loan	118	187	273
% of GDP per capita	38.8%	60.4%	74.6%
Portfolio quality			
Rescheduled loans	N/A	N/A	N/A
PAR 31 - 120	0.0%	22.5%	20.2%
PAR > 120	0.0%	6.0%	6.8%
Write-off ratio	0.0%	0.0%	0.0%
Credit risk coverage			
Risk coverage ratio	N/A	14.4%	19.4%
PAR 31 net of loan loss provision / Equity	0.0%	35.9%	36.1%
Savings			
Dec. 2005			
Dec. 2006			
Sep. 2007			
Outstanding deposits	3,911	36,691	53,828
Outstanding deposits (UGX)	6,801,300	68,245,750	94,199,800
Evolution	N/A	903.4%	38.0%
Mandatory savings (%)	0.0%	0.0%	0.0%
Voluntary savings (%)	100.0%	100.0%	100.0%
Active savers	56	397	613
Evolution	N/A	608.9%	54.4%
Average outstanding deposit per saver	70	92	88
Staff			
Dec. 2005			
Dec. 2006			
Sep. 2007			
Total number of staff	2	4	5
% Credit officers	0.0%	25.0%	40.0%
Turnover	0.0%	0.0%	0.0%
Profitability analysis			
Dec. 2005			
Dec. 2006			
Sep. 2007			
ROE	(68.5%)	3.4%	(31.3%)
Liabilities / Equity	5.9x	2.0x	2.3x
ROA	(9.9%)	1.1%	(9.8%)
Profitability structure			
Portfolio Yield	18.9%	70.4%	53.6%
Operating expense ratio	79.8%	69.0%	71.0%
Cost per borrower	38	58	129
Staff productivity	12	54	53
Loan officer productivity	N/A	216	132
Average outstanding loan per client (USD)	96	163	222
Funding expense ratio	0.0%	4.0%	5.4%
Cost of savings	0.0%	3.1%	0.0%
Cost of liabilities	0.0%	8.4%	8.7%
Loan Loss Provision expense ratio	0.0%	8.0%	4.2%
PAR 31 - 120	0.0%	22.5%	20.2%
Write-off ratio	0.0%	0.0%	0.0%
Resource optimization			
Outstanding Loan Portfolio / Assets	47.1%	46.2%	47.6%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%
Liquidity			
Loans to deposits	56.7%	95.7%	108.6%
Liquidity / Total assets (LAR)	36.6%	28.2%	30.1%
Financial self-sufficiency	73.1%	90.0%	67.3%
Exchange rate 1 USD= xx UGX	1,739.0	1,860.0	1,750.0

TULIHAMU BUDONGO SACCO Income Statement	Notes	UGX			USD			Evolution	
		Dec. 2005	Dec. 2006	Sep. 2007	Dec. 2005	Dec. 2006	Sep. 2007	2006/2005	2007/2006
Financial Revenue (a)		1,132,000	27,946,000	38,177,380	651	15,025	21,816	2,368.7%	36.6%
Financial Revenue from Loan Portfolio		364,000	23,589,000	33,683,000	209	12,682	19,247	6,380.5%	42.8%
Interest on Loan Portfolio		84,000	17,146,000	29,868,000	48	9,218	17,067	20,311.9%	74.2%
Fees and Commissions on Loan Portfolio		280,000	6,443,000	3,815,000	161	3,464	2,180	2,201.1%	(40.8%)
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-
Other Operating Revenue		768,000	4,357,000	4,494,380	442	2,342	2,568	467.3%	3.2%
Financial Expense (b)		-	1,354,550	3,389,500	-	728	1,937	-	150.2%
Interest paid on borrowings		-	175,000	1,698,750	-	94	971	-	870.7%
Interest paid on deposits		-	1,179,550	1,690,750	-	634	966	-	43.3%
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-
Financial income [c=a-b]		1,132,000	26,591,450	34,787,880	651	14,296	19,879	2,249.1%	30.8%
Net Loan Loss provision expense (d)		-	2,677,865	2,666,533	-	1,440	1,524	-	(0.4%)
Loan loss provision expense and write-off		-	2,677,865	2,666,533	-	1,440	1,524	-	(0.4%)
Recovery from Loans written off		-	-	-	-	-	-	-	-
Operating expense (e)		1,537,825	23,128,154	44,592,250	884	12,434	25,481	1,404.0%	92.8%
Personnel Expense (includes fringe)		505,000	5,109,600	7,838,850	290	2,747	4,479	911.8%	53.4%
Administrative Expense (non-staff operating expenses)		1,032,825	18,018,554	36,753,400	594	9,687	21,002	1,644.6%	104.0%
Depreciation and amortization		133,125	290,787	-	77	156	-	118.4%	(100.0%)
Consulting fees		80,000	1,030,500	780,000	46	554	446	1,188.1%	(24.3%)
Stationary & printing		164,600	3,782,650	3,241,300	95	2,034	1,852	2,198.1%	(14.3%)
Travel & subsistence		67,100	1,793,500	5,522,400	39	964	3,156	2,572.9%	207.9%
Training & mobilisation		-	5,155,900	16,370,300	-	2,772	9,354	-	217.5%
Office expense & admin.		26,500	1,328,250	4,141,200	15	714	2,366	4,912.3%	211.8%
Board allowances		12,500	1,245,800	3,186,500	7	670	1,821	9,866.4%	155.8%
Rent & utilities		330,000	781,500	1,508,300	190	420	862	136.8%	93.0%
Audit & legal fees		200,000	300,000	-	115	161	-	50.0%	(100.0%)
Others		19,000	2,309,667	2,003,400	11	1,242	1,145	12,056.1%	(13.3%)
Net Operating Income Before Taxes and Donations [f=c-d-e]		(405,825)	785,431	(12,470,903)	(233)	422	(7,126)	(293.5%)	(1,687.8%)
Income Taxes (g)		-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(405,825)	785,431	(12,470,903)	(233)	422	(7,126)	(293.5%)	(1,687.8%)
Non Operating Revenue (i)		-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		(405,825)	785,431	(12,470,903)	(233)	422	(7,126)	(293.5%)	(1,687.8%)
Donations (l)		87,500	4,300,000	15,979,850	50	2,312	9,131	4,814.3%	271.6%
Net Income (after Taxes and Donations) [m=k+l]		(318,325)	5,085,431	3,508,947	(183)	2,734	2,005	(1,697.6%)	(31.0%)

TULIHAMU BUDONGO SACCO		UGX			USD			Evolution	
Balance sheet	Notes	Dec. 2005	Dec. 2006	Sep. 2007	Dec. 2005	Dec. 2006	Sep. 2007	2006/2005	2007/2006
ASSETS		8,185,475	135,433,671	203,565,515	4,707	72,814	116,323	1,554.6%	50.3%
Short Term Assets		7,253,600	133,435,450	162,602,122	4,171	71,739	92,915	1,739.6%	21.9%
Cash and Due from Banks		2,998,100	38,247,173	61,265,270	1,724	20,563	35,009	1,175.7%	60.2%
Short Term Investments		-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		3,855,500	62,613,235	96,912,852	2,217	33,663	55,379	1,524.0%	54.8%
Short Term Gross Loan Portfolio		3,855,500	65,291,100	102,257,250	2,217	35,103	58,433	1,593.5%	56.6%
(Loan Loss Reserve)		-	2,677,865	5,344,398	-	1,440	3,054	-	99.6%
Interest Receivable		-	-	-	-	-	-	-	-
On loan portfolio		-	-	-	-	-	-	-	-
On investments		-	-	-	-	-	-	-	-
Accounts receivable and other assets	1	400,000	32,575,042	4,424,000	230	17,513	2,528	8,043.8%	(86.4%)
Long term assets		931,875	1,998,221	40,963,393	536	1,074	23,408	114.4%	1,950.0%
Long Term Net Investments		-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-
Net Fixed Assets		931,875	1,998,221	40,963,393	536	1,074	23,408	114.4%	1,950.0%
Other Long Term Assets		-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		8,185,475	135,433,671	203,565,515	4,707	72,814	116,323	1,554.6%	50.3%
Liabilities		7,001,300	90,983,565	141,866,462	4,026	48,916	81,067	1,199.5%	55.9%
Short term liabilities		7,001,300	88,816,904	116,866,462	4,026	47,751	66,781	1,168.6%	31.6%
Demand Deposits		5,801,300	46,520,750	69,177,100	3,336	25,011	39,530	701.9%	48.7%
Compulsory Deposits		-	-	-	-	-	-	-	-
Short Term Time Deposits		1,000,000	21,725,000	25,022,700	575	11,680	14,299	2,072.5%	15.2%
Short Term Borrowings		-	2,000,004	22,666,662	-	1,075	12,952	-	1,033.3%
Interest payable		-	771,150	-	-	415	-	-	(100.0%)
Accounts Payable and Other Short Term Liabilities	2	200,000	17,800,000	-	115	9,570	-	8,800.0%	(100.0%)
Long term liabilities		-	2,166,661	25,000,000	-	1,165	14,286	-	1,053.8%
Long Term Time Deposits		-	-	-	-	-	-	-	-
Long Term Borrowings		-	2,166,661	25,000,000	-	1,165	14,286	-	1,053.8%
Other Long Term Liabilities		-	-	-	-	-	-	-	-
Equity		1,184,175	44,450,106	61,699,053	681	23,898	35,257	3,653.7%	38.8%
Paid-In Capital		890,000	13,753,000	27,493,000	512	7,394	15,710	1,445.3%	99.9%
Donated equity		612,500	30,230,000	46,209,850	352	16,253	26,406	4,835.5%	52.9%
Retained earnings without donations and reserves		(318,325)	467,106	(12,003,797)	(183)	251	(6,859)	(246.7%)	(2,669.8%)
Current year		(405,825)	785,431	(12,470,903)	(233)	422	(7,126)	(293.5%)	(1,687.8%)
Other equity accounts		-	-	-	-	-	-	-	-

Notes: 1) For 2006 this includes prepayments for fixed assets purchased through SUFFICE grant; 2) For 2006 this includes 17.3 M UGX deferred income from a grant already received from SUFFICE.

■ Formulas

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$

■ Rating scale

Rating	Definition
A+	Excellent
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	Good
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D+	Insufficient
D	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
D-	
E	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.